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DEFENSE PROCUREMENT PROCESS

HEARING

BEFORE THE

SUBCOMMITTEE ON DEFENSE ACQUISITION POLICY

OF THE

COMMITTEE ON ARMED SERVICES
UNITED STATES SENATE

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DEFENSE PROCUREMENT PROCESS

WEDNESDAY, FEBRUARY 20, 1985

U.S. SENATE,
COMMITTEE ON ARMED SERVICES,
SUBCOMMITTEE ON DEFENSE ACQUISITION POLICY,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:05 p.m., in room SD-342, Dirksen Senate Office Building, Senator Dan Quayle (chairman) presiding.

Present: Senators Quayle, Levin, Bingaman, and Dixon.

Staff present: Jon Etherton, Alan Chvotkin, and Ron Kelly, professional staff members; Patricia L. Watson, research assistant; and Marie Chaillet, staff assistant.

Also present: Bernard R. Toon, assistant to Senator Quayle, Edward McGaffigan, Jr., assistant to Senator Bingaman; John Rasmussen, assistant to Senator Gramm; Allan Cameron, assistant to Senator Denton; Jeff Minsky, assistant to Senator Cohen; and Ralph White, assistant to Senator Levin.

OPENING STATEMENT BY SENATOR DAN QUAYLE, CHAIRMAN

Senator QUAYLE. We will call the meeting to order.

The hearing this afternoon is the first of five that we plan to hold between now and the end of March. Our goal is to find concrete answers to the question: What acquisition policies and strategies will give us the most for our defense dollars?

The need has never been more acute. We face an adversary engaged in the greatest peacetime military buildup the world has ever seen. While our military commitments around the world remain great and are ever expanding, we must expect an inevitable tightening of defense funds in the coming years.

If we are to meet this national security challenge in a manner worthy of the American people, efficiency in defense procurement must become the norm.

Our approach must be twofold. While achieving economies and savings in becoming more and more critical, we must devote an equal effort to putting our greatest national resource, creativity, in the service of our national defense.

Only by following both avenues can we develop the basis for sound management practices in the Department of Defense.

Today I am proposing that we build on the work of the task force last year by examining eight areas for improving the defense acquisition process. Where possible, I intend to address these improvements through general provisions in the Defense authorization bill. In my view, we need to study the means for:

Increasing competition by requiring that the military departments formally analyze the feasibility of dual sourcing or other competitive strategies for major weapons programs, including contracts at the subcontract level;

Reducing duplication by more clearly defining the responsibilities of the various auditing agencies;

Improving the quality of our acquisition work force by increasing standards and training, and by providing greater incentives and rewards for qualified acquisition personnel;

Reducing overall defense costs by institutionalizing the initiation and administration of joint weapons programs;

Reducing program cost growth by mandating that each of the Services develop a program to set basic content, cost and schedule for each program as early in the acquisition cycle as possible, and to control any changes systematically in the program thereafter;

Permitting greater use of private sector innovation by encouraging industry to submit alternative proposals for meeting military requirements and by making greater use of functional specifications in the issuance of solicitations;

Improving the quality of cost estimates in the Department of Defense by more innovative uses of such techniques as manufacturing technology expertise; and

Improving quality assurance by making sure that Department of Defense personnel are properly trained and by exploring contracting out this function to the private sector.

I want to make clear that this list is by no means all inclusive and I solicit the views of my colleagues on the task force on other areas that we should address between now and the end of March.

Today, we will be hearing from three recognized experts in the defense acquisition and contracting community.

Recently retired Air Force Lt. Gen. James Stansberry has filled a variety of posts, both in the Air Force and the Department of Defense that have had a direct impact on acquisition policy over the last 15 years. His most recent assignment before retirement was commander of the Electronic Systems Division, Air Force Systems Command.

Mr. Hugh Witt is currently vice president of Government liaison in the United Technologies Corp. He is former Administrator of the Office of Federal Procurement Policy and has served in a variety of Government positions dealing directly with logistics and procurement.

Prof. Ralph Nash is presently professor of law at George Washington University and is a specialist in the area of Government procurement law. He is the founder and former director of the Government Contracts Program of the George Washington University National Law Center.

We will begin with General Stansberry.

Senator Levin has a statement which will be inserted in the record.

[The prepared statement of Senator Levin follows:]

PREPARED STATEMENT OF SENATOR CARL LEVIN

Mr. Chairman, before we begin our business with our witnesses this afternoon, I want to make a few observations about the work of our subcommittee and the scope

of our work in the year ahead. I want to commend you, Mr. Chairman, for your balanced and measured approach to the problems in the defense acquisition system. I share your hopes that we will continue to bring a bipartisan approach to the area of defense procurement policy.

This morning on the floor of the Senate, you outlined a set of general principles that will guide our subcommittee's work. You chair a new subcommittee that will be a respected forum for informed discussion of these problems. For that I commend you, and I applaud the thought that has gone into your proposals for the coming year.

Mr. Chairman, since coming to the Senate in 1979, I have been actively involved in procurement issues. Two years ago, we were able to get a bill signed into law that changed the notice provisions for publication in the Commerce Business Daily, and required high level sign-off and publication of sole-source purchases. I felt strongly that there had to be a point in the process where it was important to make it more difficult to procure on a sole-source basis.

I want to tell you how long it took to succeed on this matter that I thought was crucial in what has been, for me, a war against sole-source procurement.

My first sole-source notice and sign-off provision was added to the fiscal year 1982 DOD authorization bill. Opposed by DOD, the provision was dropped in conference. I added the amendment again to the fiscal year 1983 DOD bill and again it was dropped in conference. My amendment was also added to S. 2127, the competition in contracting bill, which died in the 97th Congress. That Cohen-Levin bill, by the way, finally passed just last year and is significantly reforming the way we purchase goods and services. However, that is not the end of the saga for the sole-source notice and sign-off language. I also added the language to the Small Business Committee bill in the 97th Congress that was designed to improve the content of notices in the Commerce Business Daily. That bill, S. 1947, also died in the 97th Congress. Finally, during the last Congress I added my amendment to both S. 338, the Cohen-Levin competition in contracting bill that finally became law, and S. 272, the Small Business Notice Act which was signed into law 2 years ago. My sole-source provision now is the law.

The receptivity to change has improved during the last 2 years. But, Mr. Chairman, we cannot give up our willingness to tackle tough issues if our subcommittee is to retain the respect of the public whose trust we must safeguard. There are some very serious issues at hand. For instance, I have spoken in nearly every task force meeting we have had on the issue of the revolving door. Mr. Chairman, I am deeply disturbed by the appearance created and the effect on morale when someone like a plant representative officer in charge of as many as 100 DOD or service employees leaves the job on Friday and begins working for that very same contractor on Monday.

I have reviewed a 1982 report from the Officc of Government Ethics on the problems involved in this revolving door practice and the omissions that easily slip through the current law. I would hope that the chairman would hold a hearing in the near future on this problem as part of our subcommittee's review of the acquisition work force.

Second, Mr. Chairman, we have to be concerned about some of the business practices in defense contracting. The issue of overhead allocation will not go away. Inherent in every recent story of spare parts pricing abuses is the allegation that there is a strange method of allocating indirect contractor costs to the item. However, recently we learn that in a flurry of memos within the Air Force, no one has been able to document our pricing problems in this way. We may also have to throw ourselves into the cost accounting standards that are used to allocate costs to our contracts.

On a third note, on Dec. 18, 1984, the Assistant Secretary of the Navy for shipbuilding, Mr. Everett Pyatt, testified before our subcommittee. In what I consider to be impressive frankness, Mr. Pyatt encouraged our subcommittee to take a look at profit policy. "It is time to sit down and take a good look at it again * * * it is really a cost-based profit policy with little incentives to control costs," he said. As a subcommittee, we cannot ignore his challenge.

Finally, serious questions exist on whether incentive contracting methods are producing the kinds of motivations to contractors we have been led to believe they produce.

Mr. Chairman, I look forward to working with you over the coming year as we turn our energies to many of these problems that lay before us.

Senator QUAYLE. General Stansberry, you may proceed.

STATEMENT OF LT. GEN. JAMES STANSBERRY, U.S. AIR FORCE (RETIRED), (FORMERLY ADMINISTRATOR, OFFICE OF FEDERAL PROCUREMENT POLICY)

General STANSBERRY. Thank you, Mr. Chairman.

I am a retired Air Force general. I am here as a private citizen today. While I am presently employed as a consultant primarily to the electronics industry, I am representing no companies today. I represent myself and will try to report some of my own experiences in the business of systems acquisition.

When I talked to Alan Yuspeh before coming down here he suggested I try to summarize what I perceive to be both the strengths and weaknesses of the system we live with.

I think the single greatest strength that we have from my recent experience of spending 3½ years as commander of the Electronics Systems Division is the tremendous people we have out there trying to do the job. They are well educated. They are dedicated to the task and they are trying to do their part in defending this country and sometimes under very trying conditions.

I am speaking both of blue suit airmen and officers and our civilians. In fact, most of the members of my command were civilians. I think with respect to those in the Federal Civil Service, I must say I have the highest regard for their talents. I don't often hear much about the positive side of their contributions. They are either ignored when it comes time to pass out the medals and praise or they are castigated for what is perceived to be weaknesses.

I think they get more than their fair share of criticisms. The civilians that worked for me did a fine job of bringing electronics systems onboard. Our people are great, obviously a great strength to the system.

What made me feel very good about what I was doing was the clear support we have had of the American people on the tasks that we set out to do, to acquire things like the AWACS, the advanced airborne command posts, the various electronics needed in our defense.

In fact, in recent years I perceived growing support and especially among our young people. I had some 400 lieutenants working for me and they were just super, with a very positive attitude toward the military, and across the country my perception was that the military as an institution was held in high regard.

The job that we were doing, not all people understood all the facets of it, but they were cheering for us and wanting us to do what is right.

Now, these great strengths, the people, and the fact that America is really behind us should not obscure the very, significant weaknesses in our system.

I have submitted to your subcommittee a prepared statement telling what I perceive some of these weaknesses to be.

I think that the systems acquisition process functions in an environment that almost guarantees high cost. The system is overregulated, chokes on its own paper, is characterized by lack of decision and commitment, vacillation and change, inefficient production rates, and little motivation to modernize and reduce costs.

In fact, given our institutional processes, it is remarkable that we do as well as we do.

Recently, Senator, as you will recall, I participated in a hearing before the Senate Armed Service Committee where we talked a little bit about the military worth of our system. That is one problem we don't have. Our system works remarkably well.

It was said by Senator Tower or Dick DeLauer, only partially in jest, that if the Russians had their choice, they would buy American arms, too.

Last year $18 billion of American arms were sold overseas to our allies. American arms are the best in the world, but they cost too much. Why do they cost too much?

I would like to offer some thoughts along this line that have inherent in them what I perceive the solutions to be.

First off, let us quit voting on the defense of our country a year at a time. Defense systems take several years to bring to being. We can't afford to change our plans every year along with budget changes. Inevitably in the annual competition for scarce Federal dollars we change, defer, delay, stretch out, and almost guarantee cost growth.

I was faced with the same problem in my own minor way, you might say, as commander of ESD because what eventually resulted in the appropriation bill started down in the root of the system. They said:

> OK, General Stansberry, you have so much directed work. Here is your dollar restraint. We want you to recommend what you think the Federal budget should look like.

With 120 programs we would do the obvious thing. We would prioritize our programs and we would get together and say:

> OK, guys, these top priority programs we absolutely have to do them right. We want to be sure with those constrained dollars that we have that we put enough on those programs to do them all right.

We ran out of money about halfway down the list. Now, there is a terrible temptation when you are charged with the health and welfare of these 120 programs to take that money and spread it out in nickels and dimes all over, but if you do that, that means you are not going to do anything right if you defer, stretch out and delay.

Somehow or another we have to get into a mode where we in fact prioritize our programs, fund them adequately, do them properly and not subject them to an annual debate where we start all over ever year.

The Air Force addressed this problem in some depth in a well-known study done a year ago called A-3, the affordable acquisition approach. It was headed by a general officer from Systems Command, Maj. Gen. Nick Chubb.

They reviewed 600 past studies of the problem. Think of that, 600 past studies. They traced in detail what happened to 109 Air Force acquisitions. They found real cost growth of about 5 percent per year. In the last 10 or 15 years that cost growth was traceable primarily to program instability which in turn was derived from large unplanned changes in program funding.

This caused, for example, 729 F–15's to cost about $2 billion more than originally planned as we went from producing them in 7 years to 10 years.

I think the answer has to be in doing the most important programs right and later on, if we can't afford to do them all right away, later on doing the next most important programs right.

I believe we need a multiyear defense budget at least for some of our systems.

Given stability and commitment, our people and our industrial system will respond with efficiency. Stable multiyear contracts based on stable multiyear budgets will, I believe, do more to improve our acquisition system than any other single step we might take.

Second, somehow or another we absolutely have to come up to rate production on defense goods. Of all the major Air Force systems acquired during the last several years that I know anything about, only the C–141 stretch was accomplished at a stable and reasonable rate.

Examples abound of costs going up as rates went down. If I were in Congress voting on a 3-year commitment, I would make sure that service plan called for a reasonable and cost efficient production rate.

Third, I think more of our systems should be built to budget. Let me tell you something that happened to me that I thought was sort of surprising.

On a system called Comfy Challenge, which was a ground-based jammer to protect rear echelon bases, we were ready to go into development. We had all the professional cost estimators doing their thing. They all came trooping in with long faces and said, "General, all we have is $20 million in the budget to develop this ground-based jammer. We are pretty sure it will take 40 million bucks to do it."

So, the decision that was up to us was should we press on and try to get started when we knew we had only half of the money or should we go back to Congress and say, "Gentlemen, we need $40 million, not $20 million," rather than starting.

Before we did anything, I went out to several companies in industry at a very senior level and said:

> What do you think? It seemed to me somehow $20 million was a lot of money and that maybe we could come up with what amounted to a ground-based static machine to confuse enemy electronics.

The answer I got was surprising. They said, "You know, maybe we can get most of it for $20 million."

So, we announced the price of the contract before we ever put it out for bid. Whatever it is, it is $20.8 million. Then we let industries bid the content, how much of our developmental needs could be satisfied?

The interesting thing to me was on a strictly no-frills basis they satisfied almost all of them. We didn't buy near the data we might have bought from other programs. We skinnied down our management and so did the contractors, but we ended up with a contract that I thought was very satisfactory.

Then I said to myself, suppose I had $40 million, I think I might have spent it. Suppose I had $60 million, I think I might have spent it. Then I thought about the B–1. No matter what the B–1 is, a lot of people understand, as you do, no matter what the B–1 is, it is $20.5 billion for a hundred and not a penny more.

Then another situation came up when we were trying to modernize the early ballistic missile early warning system at Thule. I received successive cost estimates of how much it would cost that went like this:

First cost estimate, $50 million.

Second, $80 million.

The third cost estimate, $100 million.

I said no more cost estimates. How much money do we have? We had about $80 million. I called industry at the top level and said, can we modernize that thing for $80 million?

The answer was we might be able to do most of it.

When we let the contract out for bid the price was the same for everybody, but we got practically everything we wanted at Thule for $80 million.

Now, I call this the golden number concept. Others may call it the build to budget or something, but more and more we need at some point in the development process to rally around a number. That means Congress must rally and DOD must rally—that is the golden number—and we will not spend a penny more on the system than that number even if we have to defer capability that the military thinks it needs.

I think we should do more systems that way.

There are any number of initiatives underway now attacking the same kind of problems. Let me deal briefly with a few of them.

Competition. We compete almost everything in development. The problem is trying to get competition in production, as your statement rightly points out. It takes front-end money to keep more than one producer going through development.

We are trying various approaches to that now, leader-follower, for example. In the case of Milstar we put an extra $40 million up front to keep two contractor teams in development so that eventually we could do leader-follower on all the hardware.

I applaud that effort. But let us not forget that competition alone is not the full answer.

Someone once gave me the example of two fat people in a sack race. There probably would be a loser and a winner, but they probably wouldn't set any records.

In addition to competition, we need modern facilities, we need commitment to programs, and we need stability within the program itself.

Industrial Modernization Improvement Program. I applaud it. I don't believe there is any way we can modernize the defense industry unless industry and Government pull together.

Recently, for example, ESD, my old command, with Westinghouse was able to cut a deal that sounded fine, but difficult to do. It went like this:

Mr. Westinghouse, you have about a billion dollars worth of Army, Navy and Air Force products in the plant every year. That has gone on for some years and you

are likely to continue. Now, if you can invest private capital and drive those costs down, we will let you keep some of the savings.

Now, in the defense acquisition process that is revolutionary, "We will let you keep some of the savings. We will let you earn a very competitive return on your investment if, in fact, those savings materialize."

This agreement known as Get Price is described in full in the February issue of the Harvard Business Review, an article which I authored and am pleased to offer for the record. I am not suggesting that that approach alone is the answer.

There are many approaches that are needed, but we have to involve industry and Government in sound, sensible ways to not only control costs, but to drive them down to more reasonable levels.

Reduction of data, a very fertile area for innovation. In my opinion, we buy twice as much data as we should, just about twice, and it is very, very expensive to buy paper.

To give you an example. When I was contracting for a radio on a mulityear basis in a competitive environment and bought most of the stuff we were going to need over 3 years, when I examined the contract in detail, I found that in that contract, in the interest of competition now, also a good thing, somebody had stuck in a reprocurement data package.

I said:

Gee, fellows, I thought we were buying these now. Why do we need this reprocurement data package?

Someday we must see how much that thing costs.

$3 million, get it out of there. I don't think it is worth $3 million.

I had a devil of a time getting that out of there because it violated some regulation that said, "Thou shall produce a reprocurement data package."

Every time that the Air Force, and I think it is probably true of the other services, too, have taken a serious look at data, significant savings have been generated.

Now, it is a very difficult thing to do. When the troops come in and say we are ready to go out on the street with this request for proposal, you always ask what kind of data are we buying?

The answer generally is 120, 130 items. I don't know any way to talk to them except to say, "OK, let us talk about item 1 and proceed through the list."

We have a lot of data required based on regulations, some in law, and it is difficult to weed it out, but weed it out you must.

In the case of one program, we said:

Tell you what. I am not going to let you come here with the data package. We will have zero data items and we will let the competing contractors come up with their view of what data we need to support the system in the field.

That did, in fact, achieve significant reductions. My experience is that if you pay serious attention to data, you can cut out about half of it with very significant savings.

Base lining, is in your statement, I cheer for base lining. It has the same connotations of the golden number. This is the number we signed up to, this is the schedule and this is the cost. After we sign up, there shall be no change, no change.

One final item. Source selection is costing all of us too much. Our procedures are scrupulously fair to the loser. They are not fair to all the rest of us. We get a lot of data. We hire a lot of people to wade through this data, looking for some discriminant so that we can choose between two fine American companies.

On a program called Seek-Talk in January 1981 we had two companies that had built a good airborne radio and we were running a fly-off. Both radios were good, they both functioned well against the jammers we expected they might encounter. They were competitively priced.

I said, gee this is great. There is no way for me to go wrong on this one.

Four months later the system finally produced the end source selection when there was no way to make a mistake in the beginning. During those 4 months 120 of our people waded through the data needed trying to search for some discriminant. I think we can afford the risk of basing source selection decisions on much shorter proposals and company reputation.

This list could go on and on, but I suppose the important point to make is that a lot of good people in and out of Government are working the problem. I personally believe they will succeed. But the success will be modest unless fundamental changes are made in the way we structure our programs.

Multiyear funding with long-term competitive contracts, built in incentives for modernization, efficient production rates and early on commitment to a baseline golden number would, in my view, produce immense savings.

When I use adjectives like immense, they ask what it means to me. To me it means 40 percent.

Thank you.

[The prepared statement of General Stansberry follows:]

PREPARED STATEMENT OF LT. GEN. JAMES W. STANSBERRY (USAF RETIRED)

I am very honored to be asked to meet with this subcommittee of the Senate Armed Services Committee. I recognize and appreciate the fact that the members of the committee are dedicated to the defense of this Nation and in particular to the efficient acquisition of the military systems we need.

I spent the last 13 years of my military service working in the Air Force systems acquisition process in both staff and command positions and believe tht I have gained some insight into both the strengths and weaknesses of that process. I hope these insights, summarized briefly below, will be useful to the committee.

The single most important strength of our system is the talent of the people involved. They are well educated, highly motivated and eager to do the best job possible. This is true of both "blue suit" officers and airmen and Air Force civilians. The latter sometimes takes more than a fair share of criticism and presently fail to receive the credit due them. Thousands of these people served under me in my last assignment and I will report to you that they do an impressive job, frequently under trying conditions. I must also tell you that our counterparts in industry have earned my appreciation. It is perhaps more popular to criticize people on the industry side, and ferret out the occasional problem. This can obscure the obvious. American industry—and that means our people in the defense companies—build the best arms in the world. During a recent testimony before the Senate Armed Services Committee, the point was made that even the Russians would prefer American arms if they could buy them. Obviously, these companies must make money to stay in business, but I am convinced that their primary motivation is not short-term profit, as important as that is. Rather, I perceive them to be oriented toward long-term growth; a reputation of delivering quality defense products and, certainly, at their highest levels, a commitment to serving the Nation.

A strength of equal importance to our system is the willingness of the American people to bear the burden of defense. While there is much open criticism of the occasional mistake, the public continues to hold the American military institutions in high esteem. In fact, in the last few years, I have perceived, especially among our youth, a very positive and growing regard for military service. Without the bottom line support of the American people, we'd all be wasting our time.

The glowing words above—the people are great, the country supports the effort—should not obscure our significant weaknesses. The systems acquisition process functions in an environment that almost guarantees high cost. The system is over-regulated, chokes on its own paper, is characterized by lack of decision and commitment, vacillation and change, inefficient production rates, and little motivation to modernize and reduce costs. In fact, given our institutional processes, its remarkable we do as well as we in fact do.

I have described some of those problems in the January-February 1985 issue of the Harvard Business Review which I am pleased to offer the record. What are some of the changes I believe are needed? I offer the following:

a. Let's quit voting on the defense of our country a year at a time. Defense systems take several years to bring into being; and we cannot afford to change our plans every year along with budget changes. Inevitably, in the annual competition for scarce Federal dollars, we change, defer, delay, stretch out and almost guarantee cost growth. As Commander of a major acquisition division, I was faced with the same problem every year. My input to Air Force Systems Command for our portion of the Federal budget was dollar constrained (obviously) and I had too many programs to fund. There was a terrible temptation to "nickle and dime" all of the programs and hope that next year there'd be more money.

The Air Force addressed this problem in some depth in the well known A^3 (Affordable Acquisition Approach) study. In looking at 109 Air Force systems acquisitions we found real growth of about 5 percent per year traceable primarily to program instability which in turn was derived from large unplanned changes in program funding. This caused, for example, 729 F-16's to cost $2 billion more than originally planned as the production schedule was stretched out 3 years.

The answer has to be in doing the most important programs right, and later on doing the next most important programs right. I believe we need a multi- (at least 3) year defense budget—especially for new systems. Given stability and commitment our people and our industrial system will respond with efficiency.

Stable multi-year contracts based on stable multi-year budgets will, I believe, do more to improve our acquisition system than any other single step we might take.

b. We must push for rate production of defense goods. Of all the major Air Force systems acquired during the last several years, only the C-141 "stretch" was accomplished at a stable and reasonable rate. Examples abound of costs going up as rates fluctuated (usually downward) on other systems such as the A-10, F-15, and F-16. Rate production depends also on funding stability.

If I were in Congress voting on a 3 year commitment to production of the F-16, I'd make sure that plans called for a reasonable and cost efficient production rate.

c. More of our systems should be built to budget. The B-1 is perhaps the best example. Everyone pretty well understands that whatever the B-1 is, 100 of them will cost $20.5 billion and not a penny more. The military appetite for change and addition is thus constrained, the entire institution is schooled and disciplined to stick to a baseline, and the country will benefit.

On a much smaller scale, when we set out last year to develop a ground based jammer (called Comfy Challenge) for defense of rear echelon bases, it seemed that at least $40 million would be needed to produce and test the design. Yet we had only $20 million. Rather than go back to Congress for more money, we asked industry what could be done for $20 million. The answer was surprising. On a no frills basis, we got on contract almost everything we needed for about $20 million. I came to the conclusion that if we had $40 million, we might have spent it. Maybe if we had had $60 million, we would have spent that.

In still another case, when cost estimates were skyrocketing for replacing the Thule based Ballistic Missile Early Warning System, we blew the whistle, announced to industry how much we could afford, and three companies bid what they could do for about $80 million. The result was modern phased array equipment now being installed at an affordable price.

What does all this mean? I think that at some point in the develoment process we all need to rally around a number—a golden number if you will, that we will not exceed under any circumstances. This will produce pressure throughout the system to reduce frills (such as marginally useful data), and curb appetites for still more

and more and more capabilities and generally shift attitudes in Government and the private sector toward tight cost constraints.

There are any number of other initiatives under way attacking the same problems. Let me deal briefly with a few of them:

Competition.—We almost always compete the design phase. What we need is more competition in production, and that takes money. Also, let's not forget that competition alone is not the answer. We also need commitment to stable programs, efficient rates and modern facilities.

Industrial modernization improvement program.—Holds great promise. New incentives are needed to convince the private sector that corporate investment in modern facilities for defense production makes sense. See the aforementioned Harvard Business Review Publication.

Reduction of data.—A fertile area for innovation. Opinion—we are presently buying about twice the data we need when acquiring new systems. Every time we've paid serious attention to data requirements we've been able to achieve significant savings.

Baselining.—A solid program that freezes program parameters (and price) at a point in time—after that—no changes.

Simplified source selection.—The process for choosing a winning contractor in a competition is scrupulously fair to the losers. Unfortunately, it also costs months or even years of effort, and a whale of a lot of money. The data demanded for a "fair" selection boggles the mind and the resources to analyze the data—often searching for some discriminant among the top notch companies—is scarce and expensive. We need to accept the risk that goes along with making up our minds based on short proposals and company reputation.

The list could go on and on and on, but I suppose the important point to make is that a lot of good people in and out of government are concerned and are working the problem. I personally believe that they will succeed but that their success will be modest unless fundamental changes are made in the way we structure our programs. Multi-year funding with long term competitive contracts, built-in incentives for modernization, efficient production rates and early on commitment to a baselined "golden number" would in my view produce immense savings.

Thank you for the opportunity to offer these comments on this important subject.

Senator QUAYLE. Thank you very much.

Mr. Hugh Witt?

STATEMENT OF HUGH WITT, VICE PRESIDENT, UNITED TECHNOLOGIES CORP. (FORMERLY ADMINISTRATOR, OFFICE OF FEDERAL PROCUREMENT POLICY)

Mr. WITT. Thank you, Mr. Chairman.

As you know, Mr. Chairman, most of my 34 years in Washington were with the Defense Department and/or reacting to what that Department does and during that time I was involved in procurement or not very far from it.

I bring what I would like to call a balanced viewpoint since I was with industry before my Federal employment and I have been with industry again since 1977.

However, the opinions I express today are my own.

I am glad to hear my good friend Jim Stansberry refer to the work force because that is what I was starting out with. We had not arranged this in any way together. We both started with the people problem.

I certainly agree, as General Stansberry says, we have a lot of good people in the system. There have been a lot of studies and reports on it from the Commission on Government Procurement right on through the recent studies and the emphasis on personnel improvements, and so forth, that we have today.

I see Mr. Bill Hunter here who has been concentrating on the people problems for several years now.

One of the characteristics of huge bureaucracies is a rigid set of ground rules developed over the years for all facets of the operation. Since we are the largest bureaucracy in the free world, we should not be suprised if it takes a superhuman effort to force a change in personal regulations.

We used to have an appropriate expression in the Pentagon that "the anvil will last longer than the hammer" and I think that is true, particularly in trying to deal with procurement personnel.

I can only say we have to keep struggling to upgrade the procurement work force and perhaps the Congress with its ever present interest in the procurement function could show some sustained interest in the people who perform that function.

As I say in my statement, sir, we can write more and more laws, but if they are poorly implemented by poorly trained, poorly motivated people, the effort is in vain. So, we have to keep upgrading the work force every chance we can.

General Stansberry talked about paperwork. Everybody agrees there is too much paperwork. I have talked with small businessmen. In fact, when I was Assistant Secretary of the Navy in 1973 I saw a couple of very good small businessmen go out of business. One who came to see me was in bankruptcy from trying to deal with the Federal Government. It is pretty discouraging.

All the new administrations vow to reduce paperwork. You may remember the good old Commission on Paperwork, the studies they made. I finally threw away my copies just the other day. I didn't see any actual hard results come from it.

OMB has another big effort underway. They are trying to make it difficult for agencies to lay on these new paperwork requirements. I wish them luck, but I am not optimistic. I won't quote from all the reports and studies dealing with regulatory problems. I am sure it is not necessary in this forum.

You gentlemen hear about paperwork frequently. I notice that Mr. Tom Pownall, chairman and CEO of the Martin-Marietta Corp., has spoken to this very point at your January 30 hearing, Mr. Chairman. He talked about the plethora of rules and regulations. Obviously, this legendary redtape contributes to the cost of Government business.

Last Friday's Wall Street Journal had a front page article on that old tried and true missile, the Sidewinder. A group of Navy engineers developed the Sidewinder in the 1950's under very secret circumstances. To quote the article:

> Its very existence was kept from meddlesome Navy and Pentagon officials in Washington.

There is general agreement today that the Sidewinder remains one of the most efficient, and cheapest missiles in the inventory. It was developed not only in secret, but also in austere circumstances, outside of the rules and regulations normally followed in weapon systems development.

Currently, as one of the Navy engineers told the Journal, "I know of no contractual technique that will permit it."

This is indeed a sad commentary on the extent to which the development and acquisition of defense hardware has become strangled by controls and reviews.

I am reminded of that old maxim, "Some is good, more is better and too much is just right." That is what we are getting in regulations and controls, Mr. Chairman.

Leadtime—when we talk about the regulatory handcuffs we struggle with on a daily basis, that brings me to another subject which has been surfaced before your subcommittee. That is the lengthening administrative leadtimes the defense contracting people are encountering.

I was in a meeting last week with a senior military man from the Air Force Logistics Command. He said the stretchout of leadtime was his overriding problem. On one group of AFLC items the leadtime has nearly doubled, going from 47 to 83 days. This is administrative leadtime, Mr. Chairman.

Negotiation time has actually doubled. If the time is money, Mr. Chairman, and it certainly is in this business, that amounts to literally millions of dollars lost to the logistic command.

And why is this leadtime stretching out? Partly because more and more restraints and regulations have been piled onto the procurement system at the same time more levels of review were added.

The contracting officer has lost his flexibility. He is being second-guessed to death.

Just consider who is looking over his shoulder. Competition advocates are questioning his decision on the extent of competition he is using. Small business advocates are questioning his use, or lack of use, of set-asides. Breakout advocates are questioning his decision to buy parts from the prime contractor.

And there are in addition the in-house auditors and inspector general staffs, plus the Defense Contract Audit Agency and the Defense Contract Administration Service.

So, you can see that over the years whenever a problem comes up, we have thrown another regulation at it and they have built up higher and higher and higher.

Why should anyone be surprised at the contracting officer's lack of ability to keep the system moving? And I would remind the members of this subcommittee that when the Congress passes laws which involve the management of defense procurement they are adding to the rules, regulations, forms, and often to the second-guessers down through the system.

I am fearful that soon we will have more checkers checking the doers than we have doers.

As earlier witnesses have suggested, let's digest last year's legislation before we and the Defense Department have a lot more delivered to us. It must be kept in mind that literally thousands of new DOD employees are still being hired and trained just to work the spare parts management problems and to implement recent legislation.

Yesterday I talked to a man at one of the logistics commands out West. He said his average processing time for contracts has gone up 45 days in the last 6 months.

I am reminded of that sign in a bar down at Quantico. It says, "To err is human. To forgive is devine. Neither of which is Marine Corps policy."

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We will always have problems, we will always have errors by the procurement people. I don't see a very forgiving Congress at this point in time.

On program stability, which has also been mentioned, I briefly would like to add my voice to those who call for more stability. It has been highlighted as having the greatest impact on acquisition cost. I fully agree.

During my years in the Pentagon I watched production schedules being stretched out for system after system and, boy, that unit cost went right on up. So, stability of the programs was one of the major Carlucci initiatives.

I also noticed that one of the status reports on initiatives referred to rather disappointing lack of progress. We need greater discipline by the defense managers as well as by the Congress.

A recent article by two Pentagon productivity specialists noted that it is the arbitrary instability, particularly that brought on by fluctuations in the budget, which they were trying to minimize.

They concluded that, with so many players in the act, it is a difficult objective to achieve.

Now we have another thing, don't try to solve all our problems at once, just learn to dread each day at a time. That is the way it is in the procurement business.

Multiyear—as you can see, I am not bringing you any brand new items here. I don't think there have been any brand new items in the procurement business for 20 years. But we have to keep pounding away at the ones we feel will provide some improvement.

The program stability issue leads to a good plug for multiyear procurement. We have excellent programs which have been approved by the Congress for application of the multiyear techniques and they are showing in real terms an improvement over the old 1-year system.

There, Mr. Chairman, are genuine money savers.

I also note your support, Mr. Chairman, for multiyear budgeting. I want to let you know there are a lot of supporters in industry for that position. I realize it is a real challenge, but I am certainly encourged by your advocacy here in the subcommittee.

Cost estimating is another difficult and heavily criticized function. Extra attention was given to this back when General Stansberry and I were both in the Pentagon when cost overruns were hitting the headlines.

Defense contractors went to work trying to develop better estimating techniques. DOD established the CAIG, cost analysis improvement group. Despite all this effort in the last 20 years, I still don't see where the problem has really gone away.

The Grace Commission picked it up and called for discipline over cost estimates and improvement in early warning indicators of cost overruns. If the Commission meant by the word "discipline" more realistic estimates and staying with them, I agree.

It is difficult, however, to break that old habit of lowering the cost estimates in the hope that somehow the program will come in under that tough realistic estimate.

The situation, of course, has been going on, as I say, for a long time. I can understand our ability to shoot ourselves in the foot,

Mr. Chairman, but I am amazed at our ability to reload and keep on firing.

IR&D, Independent Research & Development/Bid and Proposal. I certainly want to take a few minutes to stress the importance of IR&D. It is important to the well-being of the defense effort.

I was closely associated with this area in DOD and then as Administrator of the Office of Federal Procurement Policy. I had the pleasure of testifying on IR&D before Senator Proxmire. I had to follow the good admiral on IR&D which was good experience.

I can testify to the payoff that the country receives from improved technology and using IR&D. I certainly hope we can keep that innovative program with the support of the Congress.

There are other areas I won't go into. You have heard about some of them here today. We have to make sure that we do everything we can to improve this monstrous system.

I notice several times you mentioned keeping it in perspective. The fact is that there are over 15 million procurement actions every year in the Department of Defense and 1 percent error, which doesn't seem very bad, is 150,000 mistakes.

The Congress, the media can have a lot of fun with 150,000 mistakes. But it is a monstrous system involving 100,000 people in industry and in the Government.

So, as a veteran of the Washington wars, Mr. Chairman, I highly value a reasonable inquiry as compared to the shrillness of those critics who lash out from a base of ignorance and those who do not have that sense of perspective which some of you gentlemen have been showing.

I will be glad to answer any questions that you have.

[The prepared statement of Mr. Witt follows:]

PREPARED STATEMENT OF HUGH E. WITT, VICE PRESIDENT FOR GOVERNMENT LIAISON, UNITED TECHNOLOGIES CORPORATION

I appreciate the opportunity to be here today to discuss defense acquisition, its strengths and weaknesses, and improvements which might be made.

As you know, Mr. Chairman, most of my 34 years in Washington were spent with the Defense Department, and/or reacting to actions taken by that Department. During that time I was involved in procurement or was not very far from it.

In addition, I bring a somewhat balanced viewpoint to your inquiry since I was with industry before my Federal Government employment, and have been with industry again since 1977. However, the opinions I express today are my own.

PROCUREMENT WORKFORCE

I would like to make my first comments on the procurement workforce. Practically every study or report on the subject of procurement devotes a section to personnel issues. For instance, the Commission on Government Procurement, established by the Congress in 1969, and whose report was issued in 1972, emphasized the need for training and career progression.

Much attention has been focused on people problems since the Commission's report, but I fear that not much of a dent has been made in the system. One of the characteristics of huge bureaucracies is a rigid set of ground rules, developed over the years for all facets of their operations. Since our Government is the largest bureaucracy in the free world I suppose we should not be surprised that a superhuman effort would be required to force a change in personnel regulations.

We used to have a very appropriate expression in the Pentagon, "The anvil lasts longer than the hammer."

After observing the years of struggle to upgrade the Government's procurement workforce, I can only say that the struggle must be continued, and perhaps the Congress, with its ever-present interest in the function, could show some sustained interest in the people who perform it.

The Congress can write more and more laws to improve government procurement, but if the laws are poorly implemented by poorly trained and poorly motivated people the effort will have been in vain.

REGULATIONS

Another important area that will always present problems is that of regulations. Everyone agrees that there is too much paperwork involved in doing business with the Government. I have talked to small businessmen who will never again deal with the Federal Government because they became literally awash with paper.

Every new administration vows to reduce paperwork. You may remember the Commission on Paperwork and the studies they made. I finally threw away my copy just the other day. The Office of Management and Budget now has another big effort underway to make it difficult for agencies to lay on new paperwork requirements. I wish them luck, but I am not optimistic.

The President's Private Sector Survey on cost control stressed the need for simplification of the procurement process, and for reduction of the administrative and paperwork burdens loaded onto companies doing Government business.

I could quote from many reports and studies dealing with the regulatory problems in defense procurement, but I am sure that is unnecessary in this forum. Mr. Thomas Pownall, Chairman and CEO of the Martin Marietta Corp., spoke to this point at your January 30 hearings when he referred to the plethora of rules and regulations now in the system. Obviously, this legendary red tape contributes to the cost of government business.

Last Friday's Wall St. Journal had a front page article on that old tried and true missile, the Sidewinder. A group of Navy engineers developed the Sidewinder in the 1950's under very secret circumstances. To quote the article: "Its very existence was kept from meddlesome Navy and Pentagon officials in Washington."

There is general agreement today that the Sidewinder remains one of the most efficient, and cheapest, missiles in the inventory. It was developed not only in secret but also in austere circumstances, outside of the rules and regulations normally followed in weapon system development. Currently, as one of the Navy engineers told the Journal, "I know of no contractual technique that will permit it."

This is indeed a sad commentary on the extent to which the development and acquisition of defense hardware has become strangled by controls and reviews.

LENGTHENING LEAD-TIMES

Discussion of the regulatory handcuffs we struggle with on a daily basis brings me to another subject which as been surfaced before your subcommittee. That is the lengthening administrative lead-times the defense contracting people are encountering.

I was in a meeting last week with a senior military man from the Air Force Logistics Command. He said the stretchout of lead-time was his overriding problem. On one group of AFLC items the lead-time has nearly doubled, going from 47 to 83 days. Negotiation time has actually doubled. If time is money, Mr. Chairman, and it certainly is in this business, that amounts to literally millions of dollars lost to the Logistics Command.

And why is this lead-time stretching out? Partly because more and more restraints and regulations have been piled onto the procurement system at the same time more levels of review were added.

The contracting officer has lost his flexibility. He is being "second-guessed" to death.

Just consider who is looking over his shoulder. Competition advocates are questioning his decision on the extent of competition he is using. Small business advocates are questioning his use, or lack of use, of set-asides. Breakout advocates are questioning his decision to buy parts from the prime contractor. And these are in addition to the in-house auditors and inspector general staffs, plus the Defense Contract Audit Agency and the Defense Contract Administrator Service.

Why should anyone be surprised at the contracting officer's lack of ability to keep the system moving? And I would remind the members of this subcommittee that when the Congress passes laws which involve the management of defense procurement they are adding to the rules, regulations, forms, and often to the second-guessers down through the system.

I am fearful that soon we will have more checkers checking the doers than we have doers.

As earlier witnesses have suggested, let's digest last year's legislation before we and the defense department have a lot more delivered to us. It must be kept in

mind that literally thousands of new DOD employees are still being hired and trained just to work the spare parts management problems and to implement recent legislation.

PROGRAM STABILITY

To move to another area, I would like to add my voice to those who have called for more stability in weapons system acquisitions. This has been highlighted by many as having the greatest impact on DOD acquisition costs. During my years in the Pentagon, I saw the production schedules for system after system being stretched out, with devastating impact on unit costs.

Stability in programs was one of the major Carlucci initiatives. But I noticed that a status report on the initiatives included a disappointing reference to lack of progress. This is an area where greater discipline is needed by defense managers as well as by the Congress.

A recent article by two pentagon productivity specialists noted that it is the "arbitrary" instability, particularly that brought on by fluctuations in the budget, which they were trying to minimize. They concluded that, with so many players in the act, it is a difficult objective to achieve.

MULTI-YEAR PROCUREMENT

Program stability also logically leads to a plug for multi-year procurement. The excellent programs which have been approved by the Congress for application of this technique are showing in real terms an improvement over the old one year system. They are genuine money savers.

I also note, Mr. Chairman, your support for multi-year budgeting, and I want to let you know there are a lot of supporters in industry for that position. I realize that is a real challenge, but I am encouraged by your advocacy.

COST ESTIMATING

Cost estimating has always been another difficult and heavily criticized function. Extra attention was given to cost estimating in the 1960's when cost overruns hit the headlines. Defense contractors worked at developing better estimating techniques and the DOD established Cost Analysis Improvement Groups. Despite all of these efforts the problem still exists. I notice that the Grace Commission called for more "discipline" over cost estimates, and an improvement in "early warning" indicators of cost overruns. If the word "discipline" means making realistic estimates and staying with them, I agree. It is difficult, however, to break the old habit of lowering cost estimates in the hope that somehow the program will come in under the realistic estimate.

INDEPENDENT RESEARCH & DEVELOPMENT/BID AND PROPOSAL

I would also like to stress the importance of the allowance of contractors' Independent R&D/Bid & Proposal costs to the well being of the defense effort. I was closely associated with this area while in the DOD and as Administrator of the Office of Federal Procurement Policy in the Office of Management & Budget. I can attest to the payoff which the country received through improved technology. I urge this subcommittee to support the DOD and industry as they work together to assure that innovative concepts are given a chance to be pursued and developed.

There are a number of additional areas of interest which I might bring to your attention but most have been discussed previously so I will avoid repetition today.

I would, however, like to express my appreciation for this subcommittee's measured approach to the many complications inherent in a system involving thousands of people, and uncountable pages of rules, regulations and procedures. As a veteran of the Washington wars I value highly a reasonable inquiry as compared to the shrillness of those critics who lash out from a base of ignorance and a lack of perspective.

Senator QUAYLE. Thank you very much.
Prof. Ralph Nash?

STATEMENT OF RALPH C. NASH, JR., PROFESSOR OF LAW, GEORGE WASHINGTON UNIVERSITY

Mr. NASH. Thank you, Mr. Chairman.

I think I need to repeat what Hugh said and that is we really did not coordinate our testimony. I feel rather redundant at this time, but let me quickly run through what I had prepared.

I, too, would like to get into discussion, if you choose.

What I started to say at the beginning was that virtually all the techniques necessary to do good procurement have been used successfully and are available for future use. We know how to do good procurement.

What seems to be missing so frequently is the will and the skill to use the best techniques at the proper time and, in addition, we have this terrible environmental problem that General Stansberry talked about.

What are the ingredients of good procurement?

Ideally, the best procurement would occur if the Government assigned the task to highly qualified, intelligent people and gave them significant latitude to tailor the procurement in accordance with their evaluation of the problem. That, I think, is paramount.

If we had top flight people running each program and they had great freedom to do the job right, I think you would get the best results.

The various procurement techniques would be seen as a set of tools to be used at the discretion of the program manager and the contracting officer. Higher level review would be extremely limited with very little requirement for approval before action could be taken.

The current defense procurement system does not resemble this description in any way, but it is interesting to note that it contains several of the ingredients of the system that I have described.

As General Stansberry said, DOD has many highly qualified people and in spite of the voluminous statutes and regulations in this field, it is interesting to note that there still is a lot of latitude in structuring the procurement.

I think General Stansberry demonstrated that when he talked about the various things he had done, most of which were not in the regs and probably were terrible things to do, but he went ahead and did them anyway.

Now, what does the environment look like from the point of view of the program manager and the contracting officer?

Above them are a myriad of staff people reviewing, commenting on and ultimately approving their proposed actions. They are taking a lot of time in doing it. Around them are a growing number of auditors and investigators searching fraud, waste and abuse.

I taught a course at a Navy installation not long ago. Their contracting office had been through three different investigations in a few months, three different investigative teams coming through looking for problems. That is a hard way to do a job.

Behind their backs the Office of Personnel Management is trying to reduce their grades and salaries. They must deal with governing statutes and regulations which seem to be constantly rewritten, yet they get little guidance on the major tasks which they perform.

I made a list of suggestions. Some of them are professorial in nature.

First, fire half of the staff people in the Department of Defense. Just get rid of them. They are a drag on the system. I said this might prove to be so helpful that in a few years you can fire half of those that are left. There are thousands of staff people, people who can say no to everything, but don't contribute anything to the process.

Second, recognize that the key people in the Department are the program manager and his business advisers. Make the program manager the contracting officer. Senator, that is a radical suggestion. Find qualified people to fill the program manager's job, people who would qualify as top business executives.

In a company the top people, the people who have full program responsibility have the full business responsibility as well. It is not somebody else that tells them what business decisions they have to make. Pay these people accordingly.

If the military promotion system will not dedicate officers to this profession, fill the job with civilian people. Quit horsing around with the business of having to transfer officers every 2 or 3 years. Put civilians in there if the military can't cope.

I tried to figure out something useful for the Office of Personnel Management to do. Give OPM the task of creating a personnel system to implement these suggestions.

What I am suggesting is to turn the system upside down. Put the top grade people at the operating level, the program manager, and make all the staff people and all the bosses, make them lower grade. All they do is muck it up anyway.

Put the real money, the real personnel money into the key people who have to make the system work.

Third, give the program managers real authority and make them accountable for failure. Drastically cut the layers of review and approval which prevent program managers from devoting sufficient time to run the program.

One of the interesting things you see when you look at what program managers do is that they spend more time answering questions from all the people around the Department than they do running the program. That is backwards. They ought to be running the program.

Fourth, stop changing the statutes and regulations and concentrate on helping the program manager. A simple suggestion. Help can come in the form of current manuals on how to do the job. I put in parens "(The 'current' pricing manual was written in 1975)." That is the latest edition of the pricing manual.

The current Incentive Contracting Handbook was written in 1959.

I did not put this in my prepared testimony. The life cycle costing guidance in the Department is 1970 and 1973. When I was writing this I told the class last night I tried to figure out when the brain stopped functioning in terms of putting out useful guidance to people. Around 1974 is my guess.

There has been nothing since then of any help to people. There is no guidance out on how to get competition, on how to break out, there is no guidance on the various modes of second sourcing.

In a book I wrote on patents and technical data a year ago, or maybe a little more than that, I sat down and wrote 20 pages on

ways to get competition without stealing proprietary data from a contractor. I thought that was important.

There is no such guidance. So, you leave it to professors to give the guidance. That is pretty dumb.

Finally, stop creating police organizations. The procurement people need no more investigation. They need help in doing the job.

As you can see, I have focused on the personnel situation because I am strongly convinced that people are the key ingredient to improving the system. However, I have a few comments on the process.

The first one is about time. You mentioned that. It takes longer to do a procurement every year. The feedback I get from both industry and Government is that this perhaps is the current most critical problem. It takes too long to go from the beginning to the end of the procurement process.

Congress could be of major assistance by repealing the protest procedures in the Competition in Contracting Act of 1984. Those provisions were the most ill-advised legislation ever enacted in the field of Government procurement. They give a losing competitor the power to block a procurement for over 4 months by merely filing a protest with the General Accounting Office.

Why should losers be given this power?

Are Government programs of such little urgency that 4-month delays are acceptable as a matter of course?

Even more astounding, the statute permits such a delay after award. It permits the loser to protest after award and stop the procurement with commensurate costs.

Somebody is going to pay the cost of keeping that contractor geared up ready to go for 4 months. I don't think it is too hard to figure out who is going to pay that cost. It is going to be the Department of Defense.

That was a sad piece of legislation. It ought to be repealed as quickly as you can get rid of it.

Second, I have a few comments on the cost of DOD procurement. It seems to me that the fundamental problem is that there are very few incentives in the system to promote low cost results. Since profits are cost based, there is little motivation for contractors to reduce cost.

General Stansberry commented on that somewhat. The profit system needs a drastic overhaul. That ought to be given immediate attention.

There is a profit study going on now and that is one small subelement of the profit study. It will be interesting to see how much attention they give to it.

Since there is no perceived connection between contractor cost and Government demands, and this goes to general Stansberry's comment about paperwork, contractor overheads are badly inflated. Numerous Government people demand reports, investigations, and staff assistance as if they were free.

As a start, I would suggest that all major contractors be asked to propose immediately how to cut their overhead. In the Department of Defense study of overhead one of the 10 or 12 items is Government demands for information. It is a subsidiary item. It ought to be the major item, in my view.

I would ask every major contractor to make me a proposal to cut overhead by 10 percent. Then I would do what is necessary within the Department to do those things because the overheads are Government driven, not contractor driven. The contractors don't want to have these high overheads. They are Government-imposed overheads.

Finally, we need a complete change in engineering philosophy in the Department. Let us find engineers who can find simple solutions. There must be some McLean around somewhere. Unfortunately, he died. He is the guy that did the Sidewinder. There must be people around like that.

In 1969 when I worked on the Blue Ribbon Study of defense procurement we went out and interviewed Kelly Johnson at the famous Skunk Works at Lockheed. He had 200 engineers doing his airplane. We also interviewed the F-15 program manager at that time. He had 200 people in the Air Force Program Managers Office and thousands of engineers out in industry doing the job.

Those kinds of things are out there. We need to find ways to take advantage of them.

Let us devote some real attention to life cycle costing. Life cycle costing seems to have faded away. I don't understand that. It is an important part of the process.

Let us put some life in value engineering. We have never made value engineering work effectively. Yet everybody agrees it would be good.

Mr. Chairman, I thank you for inviting me to testify. Let me close by saying I have no illusions. None of the things I have sugested can be accomplished. The Pentagon is fully staffed with experts on why significant changes are impossible.

Some of my suggestions might even take legislation and nobody would suggest that. The key ingredient that is missing is management will.

I wish you luck in your task, but I feel the best you will get is more studies of the problem.

Thank you.

[The prepared statement of Mr. Nash follows:]

PREPARED STATEMENT OF RALPH C. NASH, JR., PROFESSOR OF LAW, GEORGE WASHINGTON UNIVERSITY

I have been working and teaching in the field of Government procurement for 32 years. In that time, I have observed that there are very few new problems and equally few new solutions. Virtually all of the techniques necessary to do good procurement have been used successfully and are available for future use. What is frequently missing is the will and skill to use the best technique at the proper time. Further, the current environment does not seem to encourage or assist program managers and contracting officers to fully utilize the best techniques to get the job done.

THE INGREDIENTS OF GOOD PROCUREMENT

Ideally, the best procurement would occur if the government assigned the task to highly qualified, intelligent people and gave them significant latitude to tailor the procurement in accordance with their evaluation of the problem. The various procurement techniques would be seen as a set of tools to be used at the discretion of the program manager and contracting officer. Higher level review would be extremely limited with very little requirement for approval before actions could be taken.

While the current defense procurement system does not resemble this description in any way, it is interesting to note that it contains several of the ingredients of the system which I have described. DOD has many highly skilled people. In spite of the voluminous statutes and regulations in the field, there is still significant latitude in structuring the procurement. But the environment for procurement is terribly hostile.

THE PROCUREMENT ENVIRONMENT

Let me attempt to describe the current system from the eyes of the program manager or the contracting officer—the people charged with the responsibility for good procurement. Above them are a myriad of staff people reviewing, commenting on, and ultimately approving their proposed actions. Around them are a growing number of auditors and investigators searching for "fraud, waste and abuse." Behind their backs, the Office of Personnel Management is trying to reduce their grades and salaries. They must deal with governing statutes and regulations which seem to be constantly rewritten yet they get little guidance on the major tasks which they perform. I have the following suggestions:

1. Fire one-half of the staff people in the Department of Defense. This might prove to be so helpful that in a couple of years you could fire one half of those that were left.
2. Recognize that the key people in the Department are the program manager and his business advisors. Make the program manager the contracting officer. Find qualified people to fill the program manager jobs—people who would qualify as top business executives. Pay them accordingly. If the military promotion system will not dedicate officers to this profession, fill the jobs with civilian personnel. Give OPM the task of creating a personnel system to implement these suggestions.
3. Give the program managers real authority and make them accountable for failures. Drastically cut the layers of review and approval which prevent program managers from devoting sufficient time to running the program.
4. Stop changing the statutes and regulations and concentrate on helping the program manager. Help could come in the form of current manuals on the key aspects of procurement. (The "current" pricing manual was written in 1975. The "current" Incentive Contracting Handbook was written in 1969. There is no manual on alternate procurement strategies for weapon systems procurement. Nothing on modes for obtaining competition, breakout, second sourcing or many other vital subjects).
5. Stop creating police organizations. The procurement people need no more investigation—they need help.

THE CONTRACTING PROCESS

As you can see, I have focused on the personnel situation because I am strongly convinced that people are the key ingredient to improving the system. However, I have a few comments on the process as well. The first relates to the time it takes to carry out a procurement in the current environment. It is far too long and seems to be growing every year. We must find ways to shorten the procurement cycle. Reducing staff people should help. Giving contracting officer authority to the program manager might help and giving greater authority and autonomy to the program manager should help. Congress could be of major assistance by repealing the protest procedures in the Competition in Contracting Act of 1984. Those provisions were the most ill-advised legislation every enacted in the field of Government procurement. They give a losing competitor the power to block a procurement for over four months by merely filing a protest in the General Accounting Office. Why should losers be given such power? Are Government programs of such little urgency that four month delays are acceptable as a matter of course? Even more astounding, this statute permits such a delay after award with commensurate cost being incurred by the winning contractor and, ultimately perhaps, by the Government.

Second, I have a few comments on the cost of DOD procurement. It seems to me that the fundamental problem is that there are very few incentives in the system to promote low cost results. Since profits are cost based, there is little motivation for contractors to reduce costs. The profit system is in need of drastic overhaul. Since there is no perceived connection between contractor costs and Government demands, contractor overheads are badly inflated. Numerous Government people demand reports, investigations and staff assistance as if they were free. As a start, I would suggest that all major contractors be asked to propose immediately how to cut their overhead by 10 percent and that the DOD then take steps to reduce the Government demands on contactors to permit such cost reductions. Finally, we need a complete change in engineering philosophy in the Department. Let's find some en-

gineers who look for simple solutions to problems. Let's devote some real attention to making life cycle costing a major part of the procurement process. Let's put some life into value engineering.

Mr. Chairman, I thank you for inviting me. Let me close by saying that I have no illusions. None of the things that I have suggested can be accomplished. The Pentagon is fully staffed with experts on why significant changes are impossible. Some of my suggestions might even take legislation! The key ingredient that is missing is management will. I wish you luck in your quest, but I fear that the best that you will get is more studies of the problem.

Senator QUAYLE. Have faith, professor.

You say there is no procurement manual on how to get competition, breaking out, second sourcing?

Is there no guidance at all?

General STANSBERRY. There is no guidance. The professor is right, it is not much good. When you want breakout, you need management commitment. You get some smart guys together.

How are we going to get some breakout and still manage the thing and still not ruin the total system performance responsibilities?

You figure out a way and you go do it. What it takes is a willingness to ignore regulation, take risks and operate with the kind of flexibility where you know you are going to get support from the people in Washington who can fire you. That is still there.

I don't agree with the professor that, you know, there is no hope. By God, there is a lot of hope. We have good people. We have to turn them loose and we have to expect mistakes and we have to create the kind of environment in which innovation can flourish.

We can do breakout. We have done breakout. For example, if we don't have enough people to go to breakout, ourselves, let us go hire a contractor to do breakout and pay him a part of the savings.

Why not? They can find 10 lawyers who will tell you it is wrong. If you don't talk to 10 lawyers, then you are in the Kelly Johnson's mode, you just go do it and you save a lot of dough.

Senator DIXON. May I interrupt by asking this question, Mr. Chairman?

What happens to the breakout representative?

In every one of the procurement centers in the country we have a breakout representative as a consequence of the legislation we passed in the last session.

What happened to that?

Mr. NASH. You will get them.

Senator DIXON. Are they incompetent?

Mr. NASH. No.

Senator DIXON. Why aren't those people responsible? They have a title?

Mr. NASH. I agree with Hugh, you can have competition advocates. You can have all these people with special assignments, but the key people who are responsible are the management. Program managers are the ones who have the power. They are the ones who ought to be fully geared to do this. Many of them try.

My suggestion was that I agree with General Stansberry. General Stansberry told you about three or four things he had done in FESD that were innovative, creative, helped the process. But there is no literature on that. Nobody knows about those things.

Senator DIXON. Could I interrupt by pursuing that, if the Chairman will let me follow through on his question?

You know, we passed breakout procurement center legislation last year to put a representative in each one of them. I think there are 40 of them in the country.

Now, do we have people in those centers after the Congress acted in the last session? Are they there?

Somebody in the audience is nodding yes.

General STANSBERRY. Sure they are there.

Senator DIXON. Presumably they are responsible, are they not, for carrying on such a policy under the dictates of the Congress?

The chairman was involved with me and others, and the distinguished Senator from Michigan, we were all part of the subcommittee that fashioned the legislation that ultimately brought us what we thought was some solution there.

Is it a decent solution? Will it work?

Mr. NASH. I don't think so, myself. I don't think putting another layer in the system is a good solution.

General STANSBERRY. Let me characterize it this way.

We violated a lot of regulations, but we should never violate the law. Law is important to everybody, especially to generals.

Senator DIXON. I understand what you say, but what I am trying to get at is this.

I come to all these hearings and I hear this. It gives me sometimes a sense of frustration because I don't understand why, if we have a representative in every procurement center in the country who is clothed with the responsibility, and I am told they will all be engineers, and so forth, that do the breakouts, why don't they have the capability to do the breakouts?

That is what I don't understand. It seems to me very fundamental they ought to do that.

General STANSBERRY. Let me pursue it for a moment, Senator.

I retired last July 31, so I don't have firsthand knowledge of my old command, but I know the law dictates qualified breakout representatives. You will have them and they will be there and they will be advocating his breakout.

You also have a competition advocate, small business advocate, 8A program advocate, engineering advocate, life cycle cost advocate, data reduction advocate, and I can go on and on and on and on.

Senator QUAYLE. You are saying having all that is not a terribly efficient way to do business?

General STANSBERRY. It sure isn't.

What you have to do is hire a smart, savvy program director and say, get out there, guys, get good programs, get them in on schedule. I want things that will work and be reliable in the field that the customer will like and, for God's sake, control the cost.

Senator QUAYLE. Does the key to having an efficient procurement and acquisition process, one of the major keys, rest in the program manager?

Is the so-called SPRO the one we need to key on to see what his life, job and requirements are?

General STANSBERRY. I certainly think it is.

I had 60 colonels at FESD. They were superb, very well educated, highly motivated. They were what the program direction force would want them to be.

Keying on the problems you have to face is a better way of looking at the problem than any other way I can mention.

Senator QUAYLE. Do the other two agree on that?

Mr. NASH. That is what I said, I hope.

You have these people all over the United States. There is no system in the Pentagon or anyplace else in the Department of Defense so that when one person finds an innovative technique to solve a problem he can communicate it to hundreds of other people. There is no communication.

For example, if you look at two commands in the Air Force, ESD and ASD don't communicate.

Senator QUAYLE. Why?

Mr. NASH. Nobody communicates on procurement techniques.

General STANSBERRY. I don't agree with that.

Senator QUAYLE. Don't you communicate?

General STANSBERRY. We do. I can't agree with the professor on no communication.

It is true the way you are structured and the way you are organized tends to produce enclaves, if you will, and things that work well in electronics may not work well in the airplane industry.

It so happens the commander of ASD—and I talked things over all the time about things we tried. I was quick to copy things. You know, the B–1, $20.5 billion for 100, that is a rule. I said, God, that is great. I am going to do that every chance I get.

I think there is good communication. There never can be too much.

Senator QUAYLE. All three of you have mentioned as your first priority, although you didn't communicate with one another before you came to this hearing today, you talked about the people problem. You said the key to this whole thing is to get good people in management positions and let them do it.

I think one of the things I would ask is how do we get better people in the system?

I think we have good people, we have made improvements in getting people in it.

How do we get them and keep them in the procurement system, itself, key people who have a management aptitude?

Not everybody that is going to go into the Air Force will be a pilot. Not everybody that goes in the Navy will be a ship's captain. Not everybody that goes in the Army will be a battalion commander or tank commander.

How do we get people in with a business background that have management skills that like procurement, that want to stay in the procurement cycle and can see their way to the top?

How can we get these people that can go toe to toe with people in industry that are making a couple of times what they are and have the educational background to write contracts?

General STANSBERRY. I am an Air Force general, and not a pilot. I can react a little bit to what you say. You don't do it accidentally.

I know the services have different approaches to this. I think the Air Force Systems Command has done a very deliberate and very

fine job of going out and attracting people, those both in the blue and civilians, intern programs where we get top young people out of school, we put them on a fast track to GS–11 or GS–12, noncompetitive, where we can use their talents.

The problem is not getting good people. We are getting extremely good people. The problem is keeping good people, especially after that first 5-year tour for officers and 5 to 10 years for civilians. That is the thing we have to keep working at.

My daughter happens to be a contracting officer for the Department of the Navy, very proud, fresh out of school, doing extremely well, very proud of her career. I am not at all sure in midcareer that she will see the kind of continued motivation that would cause her to stay with the Government as she becomes more experienced.

Our problem has always been keeping the people.

Senator QUAYLE. What are some of the things that drive the lack of motivation?

General STANSBERRY. How often have you heard any top governmental official praising Air Force or Army or Navy civilians?

I don't think it is all money. I think it is recognition of their work, praising them.

How many times do contracting people make headlines?

Only when they buy $500 toilet seats.

Mr. WITT. I am not going to take a position on that.

I was going to mention the fact, and I tried to bring it out in my statement, that you always have the trouble in a big bureaucracy like the Defense Department where you have personnel procedures and levels, and so forth, which apply to everybody across the board.

The effort has been made for a number of years to kind of give the procurement people, since they are dealing with so many dollars and they have so much responsibility, and so forth, giving them a higher professional rating.

You run head on into the people on the personnel policy side and you have problems. They say, why should we give procurement people better standing than the logisticians or the maintenance people or anybody else?

So, the effort has been to try to have procurement recognized like legal and medical, as a profession, and it should be upgraded. You should not be dragged down to the lowest common denominator.

This is one of the problems you have in getting professionals. The industry recognizes procurement people as being a cut above other types and they pay them pretty damn well. The Department of Defense cannot do that.

Mr. NASH. Let me add something to that.

A lot of our suggestions are to cut a lot of the internal paperwork, internal review. I refer to my own experience as one of those fast track people in the Navy Department. That is how I learned Government procurement, the old Bureau of Aeronautics in the fifties.

I was not unhappy with the money. I liked the job a lot. But I found that the fun of the job was negotiating, cutting that deal with the contractor. That was fun. Then you got into the "Explain

the deal," explain it and explain it and justify it and all that. That wasn't much fun.

After a while you began to get this feeling of a pervasive bureaucracy sitting on top of you and it took a lot of the fun out of it. When the fun goes out of the job, it seems to me you have trouble keeping people.

Industry comes over and says, hey, look, we have a job that is fun and you can be free of a lot of that bureaucracy. You still can.

Even though Hugh works for a bureaucracy, he is a lot freer than he was in the Government. That is true most of the way around.

If you can get rid of this overlay of review—there has to be some review obviously—but there is much too much of it. If you could just find a way to trust these people, give them some freedom, I think the environment could be changed significantly.

Whether you can do that or not, I don't know.

Senator QUAYLE. Let me ask one final question and I will yield to Senator Dixon.

General Stansberry, you talked about getting this golden number.

At what point in the acquisition cycle do you think we can obtain that golden number and stick to it?

General STANSBERRY. That is a very difficult queston. I have given it a lot of thought.

I think it changes based on what you are doing, whether it is a missile, airplane, or black box. In electronics systems it is easier there because we use so much of the shelf hardware. The tough thing is to match software to it. We are getting better at software.

Overall I guess I would say nominally at the beginning of a full-scale engineering development, assuming there had been an advanced development phase or conceptual phase of some kind; perhaps for more complex missile systems, partway into the full-scale engineering development, maybe at critical design review. I think it would be good.

Here again you wouldn't want a law to say that it has to be a golden number at FESD. You want a smart guy to look at the program and say when can we pin it down pretty good?

The answer might be preliminary design review, critical design review, halfway through FESD.

I started off by saying beginning with FESD is not bad.

Senator QUAYLE. You are looking at the front end of the system before you get into full-scale engineering.

What thing could be changed to create an environment that is more positive to getting that golden number at the earliest point?

Perhaps that is a better way to phrase the question.

What impediments are currently in the acquisition cycle at the front end that would be disincentives for them to try to get that golden number and stick to it?

General STANSBERRY. For one thing you have to get into the budget about 3 years before you get into FESD. There is a great institutional temptation to get the number looking low and glamorous into the budget. That is 3 years before you enter FESD.

If you do, you are kind of stuck with it. If you do, some people say, yes, but I will be gone by then. Let somebody else worry about it.

To answer your question, it might be like this. Let you and me and everybody accept that number that went into the budget. It has a little asterisk on it and down at the bottom of the page it says.

Note, this number is worthless, that it just means it is a wag and as we proceed and get a handle on what it is really going to cost, we won't hold anybody to this number.

This is not the golden number. This is the nongolden worthless number. You know, let us quit grabbing hold of the first number that comes along. That is one thing we can do.

Second, I spent a lot of time with our cost estimators. First I thought the solution was to fire all the cost estimators and get some good guys. I spent of lot of time with them. I said, how do you do cost estimating? What is the problem here?

The problem was that they were trying to provide detailed estimates on a system that was not defined. I had one program that looked like it would go from $430 million to $2.4 billion in 2 weeks.

Why?

The system was never defined. It was called the ground wave emergency network. Nobody knew, do we need 300 towers or 500 towers? Do we need antijam, and spoof-proof?

Depending on what you said, it was how you described it, you could produce a $400 million program or a $2.4 billion program.

I guess what it takes is the kind of institutional integrity where the Air Force, Army, or Navy can come to you and say, we have this need, we think the system will look like this. We haven't the faintest idea what it will cost, but we will spend some money to find out.

Before FESD, maybe then or maybe somewhere into it, we can select and set the price. Cost estimators are good. They are trying to provide cost estimates on something that will not be defined until you get close to FESD, but you have to get the numbers 3 years ahead.

Senator QUAYLE. Senator Dixon?

Senator DIXON. Thank you, Mr. Chairman.

First, may I say I have enjoyed very much serving on this ad hoc committee in the last Congress. I am glad to see it will be part and parcel of the Armed Services Committee this time.

I congratulate you, Mr. Chairman, for the contribution you have made to the work of this committee.

While I think we are still feeling our way along and I have heard all the witnesses and the suggestions you have made and I respect those suggestions very much, I think as we become more informed on this subject, we will be better able to find a few decent solutions.

There is something that is concerning me right now. I thought perhaps Mr. Nash could help me the most, although I would welcome the responses of any of you.

What I have seen twice now since I have become a member of the Armed Service Committee that troubles me a good deal, and

honorable people might have differences about the analysis of what occurred, is situations in which we have done something where I think the whole procurement system and the Congress and everybody working in concert made a mistake.

What do you do to stop a mistake once you have made one?

What do you do when you might be in the third year of a procurement of something that is not working?

I have something, obviously, specific in mind right now and I can go into detail, but I didn't come here to get some lurid headlines. I come here to find out some answers.

What do you do when you buy a ship that is represented to you as the latest thing that we need or an airplane that is represented to you to be the latest thing that we need and the ship won't float or the plane won't fly or the gun won't shoot straight and you are in the third year of acquisition and the numbers are growing rapidly and you already have a lot of them around that aren't working and you are buying more every day?

Mr. NASH. You stop.

Senator DIXON. You stop, of course. The people in procurement will always tell you it is as expensive to stop as it is to go on. That is one answer.

How much truth is in that position?

Mr. NASH. If you are going to start again, it is very expensive to stop. It is expensive to stop and tread water, obviously.

If you are not going to start again, it is not expensive to stop. It is sunk costs and you should give them up. It seems to me you have to be able to, I think where that comes through most clearly is in the front end of the cycle, research in the early stages of the development area.

You look at Bell Labs. They tell you that 5-percent success rate is really good. The question in managing an organization like that is to know when you have had a failure and cut it out. Don't expect 100 percent success rate.

I hope when you get into production you are going to be better than 5 percent. But you are not going to be 100 percent.

General STANSBERRY. Could I add to that, please?

I think a one-word answer is quite right, you stop. You have to, again, be careful.

We produced some modern radars for Alaska called Seek Radar. They went into testing. All kinds of problems in testing. If you are going to be faint-hearted and stop then, that is dumb. That is why you have these very difficult tests.

We worked our way through the tests. We fielded the radars. They are supposed to last 1,000 hours meantime between failures. We are getting 1,500 hours.

A lot of people in the system, when you put something out and you get 300 glitches in electronic stuff, go through a panic mode. That is normal. That is why you have tough tests. You work through them.

In the circumstances you allude to, if you have really sunk some dough in it and you really ought to quit, the answer is you do quit and you can.

I know in the products division one example comes to mind. We tried to computerize an operations room and reduce the airman

workload from 15 down to 8. It just didn't work. We chose a computer that didn't have enough capacity. The software got screwed up. The contractor was overrunning.

The question is: Is the guy on the scene able to quit? What if he is not able to quit? What if he has to come to Washington? What if he has to explain all the way up instead of stopping?

Stopping is difficult. You have to have the flexibility in the field where you are doing the acquisition to stop, and we have done it from time to time. You are right, it is tough.

Mr. NASH. I have one other suggestion that I think fits in with what we have said. That is a lot of times when you have that kind of situation staring you in the face, probably the best thing you can do is to bring in some outside technical people to give you an assessment of which mode you are in.

You know, there are good technical people around who can do that kind of thing that is, what you need to know, whether this is correctable or is not. I think at that point you may bring in a team of the best people in the country or in the world if you can get them and do a quick study and see what their assessment of the program is.

I had one that I had a little consulting on recently, a foreign system, simple stuff, not a complex weapons system, a fairly straightforward, foreign system. It worked fine all over the world, a German company.

It was brought into this country by one of the services and redesigned. They redesigned it so that it won't work. They have been playing with that thing for 2 or 3 years now. That obviously needs somebody to bring in some technical people above their level to look at the problem to see what in the dickens is going on.

There may have been some valid reason to try to redesign it. At some point you have to get that group of engineers off the project or give it up, one or the other.

Senator DIXON. I heard what you said earlier about the fact the Congress continued to put on layer after layer and you talked about the breakout, procurement guide, and the competition guide and everything.

Mr. Nash, will these independent testing people help any in connection with these systems to see whether they work adequately?

Is it a fair charge that sometimes within the industry or within the service branch that they—I don't want to use the term "cover-up," but they are inclined to have a more benign and favorable attitude toward the system in general than an independent appraisal of it might be?

Mr. NASH. I wasn't thinking so much of having them fix the problem as telling you whether the problem is fixable or not. You fix it or stop.

Senator DIXON. Is this the kind of thing we should continue and can ultimately be improved until it works or is it the kind of thing we should abandon?

Mr. NASH. Right.

Senator DIXON. Most of us are in the position not to make that judgment. We might have a feeling right now having seen something.

Mr. NASH. I think somebody in General Stansberry's shoes is not in the position to make that judgment. He needs outside help.

General STANSBERRY. I can get outside help. The question about independent testing is very important. No one was ever benign to me in trying to field systems. These testers are tough. It did not make any difference if it was an Air Force general I had known for 20 years or not.

I think the subject of independent testers is perhaps overdrawn. I think the testers are mighty tough. I don't think they need to be above God, so to speak. They are mighty hard on systems.

Senator DIXON. I don't want to belabor the $650 toilet seat or the $7,000 coffee pot too much, but as a matter of curiosity, and not for headlines, what always troubles me and I think other Members of the Senate and the Congress is when something is so obvious, why isn't something done about it?

Surely anyone knows when anything is so outrageous. For instance, in certain systems I have looked at I have seen situations where a single part in a unit will not double or triple or quadruple, but by the second time around in an acquisition it's 20, 25, 30 times more expensive.

You know, it just seems to me that any person of integrity who cares about this country and protecting its interests would do something about that.

Why doesn't that occur more frequently?

I am sure it sometimes does. I am not saying mistakes don't occur. I make mistakes. The Chair probably never made one, but he probably will someday.

Why isn't something done? What is the matter with the system that something can't be done about it?

General STANSBERRY. It is interesting to note, number one, not to make the problem go away, it confronts me, too. I don't want to buy something that is overpriced, whether a nickel overpriced or $10 overpriced.

You have to remember who found the problem? People doing the work. A lot of people doing the work have blown the whistle, so to speak, and tried to correct it.

How can such a thing happen? It is obvious, but obvious to whom? I may well be somebody sitting in a big warehouse somewhere at a row desk that is looking at a stock number and doesn't even know what he is buying.

It is very important that we school people that this is what this thing is that you are buying.

General Lowe led a study of what are the real guts of this problem way down deep and did a very good job of ferreting out various aspects. Some of them were going back and buying one when you have already done away with all the machinery. Sometimes what does it cost to make one brownie, for example?

Senator DIXON. Obviously, it costs more to build one of anything than 10,000.

General STANSBERRY. The heart of the matter is, from my perception as a private citizen, that the services are paying a great deal of attention to trying to correct this thing. It is getting corrected, but let us put it in perspective.

Here we are talking about a problem of 1 percent of 5 percent of what we buy. Let us stamp it out, I am with you, but let us not spend all our attention looking at that.

As commander of ESD when this thing happened, I did the same thing you would have done. I called the guys in and said, there had better not be any $10 screwdrivers in this outfit.

Senator DIXON. The last thing I want to say is only a comment.

I read all three of your statements and listened carefully, although I got here a little late for the beginning of yours, General, but somewhere in here, maybe more than once, was a discussion about the acquisition procurement of the Sidewinder more or less in secret.

I would want to say as a Member of the U.S. Senate if it worked good then, fine. But I would want to be the first to publicly say we ought not to be acquiring and procuring things in secret. We might raise a lot of hell and sometimes it might be embarrassing to a certain branch of the service or a Member of Congress, but I think it has a salutary effect on what occurs out there.

I think public scrutiny is terribly important to the process we go through here. I hope you people and people generally involved in the procurement process think likewise.

Mr. WITT. Over the years as a problem emerges what you do is write a regulation. So, we have regulations covering just about everything in the world now. The Congress did not feel there was enough competition.

So, although all the regulations say there will be competition, all kinds of regulations have been written over the years saying you will do everything you can to get competition, and so forth.

Now we have competition advocates. Now the administrative leadtime will start adding up. The Congress did not feel there was enough breakout so we got breakout advocates. The Small Business Committee over the years insisted that we have small business advocates.

All I am saying is that although there are plenty of regulations saying do all these things, there are regulations saying let us have breakout, this is something else that has been added to the system.

In a few years I dare say someone will be sitting here explaining to a group of Senators why the administrative leadtime is so damn long. I think a lot of you gentlemen will say you have loaded this on and this on and the administrative leadtime will go clear out of sight.

There is a regulation, there is a part of the procurement system now, a section in there on jewel bearings. It says you will go to North Dakota and buy jewel bearings from the Rolla, ND, jewel bearing plant.

Perhaps people say how in the world did that get in there? That is another regulation. You are looking at the guy who helped put it in there.

This was in 1952. Senator Langer of North Dakota went to the White House and said, Mr. Truman, I helped get you elected. We don't have any plants in North Dakota.

The word came to the Pentagon where I was at the time as a GS-12, we want to do something for North Dakota. So, we all got together, Army, Navy, and Air Force. There was then the Muni-

tions Board. We didn't even have an Office of the Secretary of Defense.

They said do something for North Dakota. We all went home to think about what we could do for North Dakota. I said to myself, Hugh, by gosh, I believe we can use those Indians, that is about all North Dakota has, a lot of wheat and a lot of Indians.

Senator DIXON. The Senator from North Dakota will take exception to that.

Senator QUAYLE. Just wait. He is looking at the warranty legislation. Wait until he gets hold of that.

Mr. WITT. Besides Indians and wheat, we have tractors up there, too. I forgot about that, and manure spreaders. So, what we did was discuss how we could use the Indians.

Anyway, what we did was write a section in the regulations saying you will go for bearings to the Rolla, ND, jewel bearing plant.

I don't know how many pages are there in how you have to go up there to get your jewel bearings. We took care of North Dakota.

Senator QUAYLE. Is that still on the books?

Mr. WITT. It is still in there.

Mr. NASH. Nothing ever goes away.

Mr. WITT. If you try to get that out of there, you will run into all kinds of problems.

General STANSBERRY. I think there is a positive side to the whole thing—I don't think we should leave it all in a gloomy area—what can be done. Plenty can be done. Plenty is being done.

There are all kinds of initiatives coming up from the grass roots, from the people doing the job. We don't sit around and dream up good ideas. We talk to these folks all the time. They want to do it right. They really do.

They are good people. They have MBA's. They are anxious to do it right and never tire of putting a lot of pressure on the system, especially our young people coming in, to reject some of the things that Hugh and I helped perpetuate.

What we need now with all this pressure from the bottom is some real pull from the top. That is why I am so encouraged about the action that the Armed Services Committee has taken.

You couple that kind of feeling that is out there of people wanting to do it right with the bind we are in with respect to the Federal deficit, I think the time is right to make some very, very significant changes in the way we do our business.

We are building good arms now. They cost too much. We can correct that.

Senator QUAYLE. Senator Dixon, do you have anything else?

Senator DIXON. No. I want to thank the Chair.

Senator QUAYLE. Gentlemen, thank you very much.

We have some additional questions which we would appreciate answers, for the hearing record.

[Questions with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR DAN QUAYLE

INCREASED COMPETITION

Senator QUAYLE. Everyone seems to agree that the pressure of competition is one of the most effective tools for forcing sound management practices in defense programs.

In our efforts to increase competition, however, we are often faced with a dilemma. We want to remove the institutional barriers to greater competition and yet provide the services with sufficient flexibility to develop the most cost-effective acquisition strategies.

One of the proposals that we are exploring is to require that the Military Departments perform an analysis of whether it makes sense to set up a dual source acquisition strategy at the time an initial production decision for a system is made and annually thereafter.

At the same time, however, we want the services to consider other means of maintaining continuous competitive pressure.

Is this a workable approach?

General STANSBERRY. Such analyses must be performed well prior to the initial production decision. In fact for a workable approach, a commitment to dual source or leader-follower needs to take place as early in the development phase as possible. A requirement for such analyses should not be legislated, nor contained in "language". They happen routinely now—certainly in Air Force Systems Command. The problem is not the analysis—the problem is getting the front end money to keep a competitor in the game (cost delta with MILSTAR was $40M and worth it). (Note: The above answer pertains to the above and three following questions.)

Mr. WITT. The current regulations allow the services to consider dual-sourcing as one of many options in acquisition strategy. If the Congress is convinced that not enough consideration is being given this option, it can certainly direct the DOD to place more emphasis on dual-sourcing. In some cases dual-sourcing would obviously not make sense. It is a healthy approach to assure that every opportunity be pursued as long as the payoff is worth the investment.

Mr. NASH. The lead times for second sourcing are so great that an annual report seems impractical. The second sourcing decision should be made and justified in the advanced procurement plan and then reconsidered at any time that there is a significant change in the quantities to be procured.

Senator QUAYLE. Can such a requirement be effectively applied across-the-board to defense system acquisitions?

General STANSBERRY. Don't apply any requirement "across the board." Every deal is different.

Mr. WITT. This approach can certainly be applied to the great majority of defense system acquisition, but good cost estimates, including life cycle costs are mandatory.

Mr. NASH. Yes, with the exception of the very low volume, high cost systems.

Senator QUAYLE. How precisely do we need to specify the other strategies for maintaining continuous competitive pressure that the services would be required to analyze as an alternative to dual sourcing in their annual report?

Mr. WITT. I do not favor overly-precise guidance concerning acquisition strategy. If all flexibility is removed, the program manager and the contracting officer do not have any room for innovative management decisions. Congress should more appropriately assure itself that a number of strategies are available and that they are being thoughtfully considered by those responsible for making program and contracting decisions.

Mr. NASH. I do not believe there is a need for additional statutory coverage of this subject. We should see whether the Competition in Contract Act works.

Senator QUAYLE. Is the time of the initial production decision the right point for use to require that the analyses be done?

Mr. WITT. Yes, that is usually the best time to perform the analyses.

Mr. NASH. The analysis should be made in the advanced procurement plan. It might be reconsidered at the time of the initial production decision.

IMPROVED AUDIT COORDINATION

Senator QUAYLE. Since the creation of the Inspector General's Office, great concern has been voiced that we have too many auditing functions with overlapping responsibilities. There seem to be too many checkers for the number of procurement personnel.

Do any of you gentlemen have any questions on how to rationalize the auditing roles of the IG, the AG, DCAA and the GAO?

General STANSBERRY. You cannot rationalize the number of "Checkers". Their legions defy logic. Let's put them to work doing something useful.

Mr. WITT. I personally believe the Congress has gone overboard in directing that the DOD have as many review authorities as it now has. A comparatively few so-called horror stories have created a misperception that the procurement system is rife with ripoffs. When you consider the size of the job being done, the problems are of relatively miniscule importance. The Congress should understand that there is no 100 percent foolproof system which will eliminate all error. Adding more layers of review will not solve the inherent problems of such a complex, involved procurement structure, which is already the most regulated system in the western world.

Mr. NASH. The most important function of the auditors is contract audit. This consists of prenegotiation assist audits to the contracting officer, audit of costs on cost type and redeterminable type contracts, cost accounting standards audits and truth in negotiation audits. I would suggest a single Government wide agency adequately staffed to do this job. At the present time DCAA is the major agency doing this work and it is probably understaffed for the job. The IGs and not doing this job effectively although it is part of their assigned role. Once contract audit is done well, the rest of the auditors could be used to seek fraud. But let's get first things first.

QUALIFIED ACQUISITION WORK FORCE

Senator QUAYLE. Mr. Witt, you touched on the critical importance of the people who administer our procurement system and your concerns about training and motivation. I share your concerns and have reflected on the proper role of our Task Force and the Congress in correcting this problem.

Do we need to legislate some type of appropriate career path for procurement personnel?

Mr. WITT. I do not believe legislation is the answer. The Congress should provide oversight of the efforts being made within the executive branch to upgrade the procurement profession, and to assure that the proper amount of attention is paid to training and motivation.

General STANSBERRY. Directed to Mr. Witt—but I offer that legislation is not the answer. Instead give us freedom from restrictive laws and regulations, an ability to hire smart, motivated people and a flexible atmosphere in which they can operate. What do I mean by a flexible atmosphere? I mean the opportunity to do the right thing—and do it at the working level without weeks or months of swimming upstream with briefings to various officials in Washington. People even need the opportunity to make the occasional mistake without fear of being tried in the press. Certainly our ponderous body of laws and regulations, enacted perhaps to prevent mistakes, hasn't worked well. Also see answer to question 5.

Mr. NASH. Such legislation would be highly effective in raising the status of procurement to the proper level. I would suggest that your include program management in the legislation and consider combining the functions.

Senator QUAYLE. Do we need to mandate the development of some form of formal training program for procurement officials?

General STANSBERRY. No mandate is needed. Formal training programs now exist and work well.

Mr. NASH. There is a profusion of training available in the private sector and in Government schools. What is needed is some quality control to assure that the training being given is of high quality.

Mr. WITT. I would not, at this point in time, support the mandating of formal training. Oversight would be more appropriate, followed by some sort of mandate if appropriate progress was not made.

Senator QUAYLE. Do you have any views on the proposal to designate top management posts, such as flag and general officer positions, for program managers?

General STANSBERRY. In my view, this is a function best left to the services.

Mr. WITT. The designation of flag and general officer billets for program managers one technique which can be used to assure that these important jobs receive the high visibility and quality personnel they deserve. I can, however, visualize problems of setting aside a fixed number of billets, since the number of important program manager jobs may well vary with the threat to be met and the budgets available for weapon systems. The system should be kept flexible.

IMPROVED JOINT PROGRAM ADIMINISTRATION

Senator QUAYLE. One of the most difficult tasks in improving the acquisition process is fostering greater use of joint requirements, specifications and programs.

What is your diagnosis of the obstacles toward greater joint Service cooperation in the acquisition and support of defense systems?

General STANSBERRY. The single biggest obstacle is rationalization of service requirements. The next biggest obstacle is the annual "battle for bucks." If a system is lower priority for the Army than for the Air Force and one of the partners drops out or can't fund its commitment, we have chaos.

Mr. WITT. Considering the size of the total defense effort, the pride and esprit de corps of the Services, and the bureaucratic problems to be solved in joint projects, I doubt that we will ever see many successful joint programs. I also support a certain amount of competition among the services if it does not become too costly and disruptive of the overall defense effort.

Senator QUAYLE. What is the most effective means to institutionalize more joint Service cooperation in defense acquisition?

General STANSBERRY. Encourage an executive agent and authorize multi-year funding based on a "golden" number.

Mr. WITT. This question involves far-reaching implications of roles and missions for the services, assignments to meet perceived enemy threats, and the authority of the Joint Chiefs of Staff. Significant changes in the DOD structure and management philosophy would be necessary before an efficient procedure to assure joint cooperation is developed.

MANDATORY BASE LINING SYSTEM FOR EACH SERVICE

Senator QUAYLE. It has generally been agreed that program instability is probably the greatest single cause of cost growth in weapon system programs. The Air Force has established an excellent track record with its base lining program by controlling cost through greater program stability.

Under the base lining approach, all the players participating in a program agree on an explicit description of the program's requirements, content, and funding, and commit to managing the program within the terms of that description.

Would there be merit in making base lining mandatory for all the services?

General STANSBERRY. Once again—one prescription won't work for every illness. Baselining, for example, doesn't work for level of effort programs. I refer you to OASIS—an excellent nonbaselined program. Baselining works well for many types of programs—but don't *mandate* it. We have too many mandates now.

Mr. WITT. I would support baselining for the services, at least on a trial basis. The benefits would more than offset the effort required.

Mr. NASH. Yes.

Senator QUAYLE. Do the structural differences in the various Military Departments' acquisition systems in any way preclude mandating some form of base lining approach for each?

General STANSBERRY. No—but don't mandate. Every deal is different. Some programs should be baselined—some shouldn't.

Mr. WITT. This question could be answered more effectively by a trial run of baselining.

Mr. NASH. There may be a few unique programs where this would not be an advisable approach but it could be applied generally with exceptions to be justified.

GREATER INNOVATION BY INDUSTRY IN WEAPON SYSTEM DESIGN

Senator QUAYLE. It seems that, despite the efforts of Congress and some segments of the Executive Branch, innovative ideas that originate in the private sector always have to wage an uphill battle to be accepted by the defense bureaucracy.

Just last Friday, the "Wall Street Journal" played this theme with the story of the gestation of the Sidewinder missile program.

Changing this state of affairs is going to be a formidable task.

How do we establish an institutional framework to provide a fair hearing to industry when they bring alternative proposals to meet military requirements?

General STANSBERRY. You must help tear down part of the institutional framework we have—not erect a new one. The formality and rigor of our source selection process almost guarantees few alternative proposals. At the heart of the matter is the GAO protect threat. Contractor A (who bid the stated requirement) loses to contractor B who bid an innovative approach (cheaper, faster, better, etc.) that meets 90% of the requirement. Contractor A protests to the GAO; the protest is sustained (B wasn't responsive) and everybody loses.

Mr. WITT. The key decision-makers at the top levels of the services must be convinced that it is in the best interests of the Nation to provide a more objective recep-

tion to industry proposals. This approach is stressed in OMB Circular A-109 dealing with major system acquisition. It needs to be reinforced.

Mr. NASH. OMB Circular A-102 deals with this issue. What is necessary is some means to institutionalize the process in the early stages of planning for the means to meet a new requirement. A reorganized JCS might be the appropriate place to focus this effort.

Senator QUAYLE. Could a board be set up to evaluate industry proposals without further increasing the layers of the procurement bureaucracy?

General STANSBERRY. No——horrors!!

Mr. WITT. I do not favor an outside board of some kind to evaluate industry proposals. Such a board would not be close enough to the service knowledge of needs to meet the threat.

Mr. NASH. National experts in various fields of technology might well be used as participants in this type effort.

IMPROVED COST ESTIMATES

Senator QUAYLE. What is the greater cause of cost estimating errors, the formulas that are used or the assumptions that are made in the forecasting?

General STANSBERRY. Neither—the greatest cause of cost estimating errors has been shown time and time again to be the lack of definition of the requirements on which an estimate is being prepared. Generally the first estimates are prepared about three years prior to the beginning of full scale engineering development—in order to get into the budget. They are "wags" but become "golden" as they are "committee-ized" and "politicized" by the system.

Mr. WITT. I am not close enough to the current cost estimating technology or practice to comment.

Senator QUAYLE. Could we significantly improve the quality of our cost estimates through greater use of manufacturing technology expertise?

General STANSBERRY. No. Has little or nothing to do with it. We could reduce cost this way, however.

Mr. WITT. Based on my limited knowledge of this issue I would say yes.

IMPROVED QUALITY CONTROL

Senator QUAYLE. The stories last year of the quality control problems at the Hughes plant in Tucson raised some serious questions about the level of training of quality control personnel working in the Plant Representative Offices there.

To what extent would a requirement for formal training prevent similar problems at other facilities?

General STANSBERRY. The answer to quality control problems does not lie in better trained inspectors. We have too many now. The answer lies in quality conscience design and better manufacturing processes. The Japanese produce top quality goods with a much lower ration of QC inspectors to workers.

Mr. WITT. I cannot speak to the point.

Mr. NASH. Before I focussed on training, I would look at the grade level of the quality control employees. Are they paid enough to attract the competence that is necessary?

Senator QUAYLE. Is quality assurance an area that the Federal Government might profitably contract out, given the proven competence of the private sector in this area?

General STANSBERRY. Good idea; but see above.

Mr. WITT. I am convinced that this would be an excellent area for contracting.

Mr. NASH. Yes, this function might well be contracted out in cases where the Government staffing is inadequate.

OMB CIRCULAR A-109

Senator QUAYLE. Mr. Witt, OMB Circular A-109 on the acquisition of major weapon systems was issued during your tenure as Director of OFPP.

Does Circular A-109 need to be modified?

Mr. WITT. Circular A-109 has held up exceedingly well over the years, and through several diverse administrations. I see no need for modification.

General STANSBERRY. OMB Circular A-109 is over balanced toward requirements driving technology. The reverse is often true. The airplane was not invented because some cavalry general thought a flying horse was "required".

Senator QUAYLE. Has it, in your view, been correctly implemented?

Mr. WITT. Yes, it has been correctly implemented.

General STANSBERRY. No comment.

Senator QUAYLE. The 1984 DSB Summer study encouraged greater use of major upgrades for new weapon system development projects.

How do you think we can introduce this notion in the "front end" of the procurement system?

Mr. NASH. This was also a recommendation of the Blue Ribbon Panel in 1969. It must be done at the beginning of the planning process at the same time that other solutions are considered. Devising a workable institution for this entire problem should be given high priority.

Senator QUAYLE. I was recently briefed on a study which concluded that the average cost growth on major systems has been reduced between the 1960s and 1970s.

Do you agree, and if so, why?

Mr. WITT. No comment.

Senator QUAYLE. Again, thank you very much.

The committee stands adjourned.

[Whereupon, at 3:45 p.m., the Ad Hoc Task Force adjourned, subject to the call of the Chair.]

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